

| | | | |
|---|--------------------------|--|------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Ruth Hughes Memorial District Library | County Lapeer |
| Audit Date 12/31/04 | Opinion Date 06/27/05 | Date Accountant Report Submitted to Sate: 07/29/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

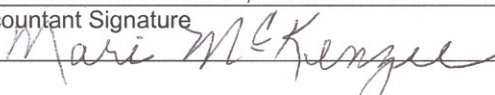
- 1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
- 2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal financial assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|--|------------------|-------------|--------------|
| Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. | | | |
| Street Address 3149 Main Street Plaza #4, P.O. Box 218 | City Marlette | State MI | ZIP 48453 |
| Accountant Signature  | | | |

Ruth Hughes Memorial District Library

Annual Financial Statements

and

Auditors' Report

December 31, 2004

Table of Contents

| <u>Section</u> | <u>Page</u> |
|---|-------------|
| 1 List of Elected and Appointed Officials | 1 – 1 |
| 2 Independent Auditors' Report | 2 – 1 |
| 3 Management's Discussion and Analysis | 3 – 1 |
| 4 Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 4 – 1 |
| Statement of Activities | 4 – 2 |
| Balance Sheet – Special Revenue Fund | 4 – 3 |
| Reconciliation of the Balance Sheet of Special Revenue Fund to the Statement of Net Assets | 4 – 4 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Special Revenue Fund | 4 – 5 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Special Revenue Fund to the Statement of Activities | 4 – 6 |
| Notes to Financial Statements | 4 – 7 |
| 5 Required Supplemental Information | |
| Budgetary Comparison Schedule – Special Revenue Fund | 5 – 1 |

Ruth Hughes Memorial District Library
Imlay City, Michigan
List of Elected and Appointed Officials
December 31, 2004

LIBRARY BOARD

DONALD DAVENPORT

PRESIDENT

NANCY MARSHALL

VICE PRESIDENT

LAURIE DODGE

SECRETARY

LINDA PRENDERGAST

TREASURER

MARY LOU BISSETT

TRUSTEE

KAY FANSON

TRUSTEE

KAREN HIBBLER

TRUSTEE

ADMINISTRATION

BRYAN CLOUTIER

LIBRARY DIRECTOR



3149 Main Street, Suite Plaza #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

Independent Auditors' Report

To the Board
Ruth Hughes Memorial District Library
Imlay City, Michigan

We have audited the basic financial statements of the Ruth Hughes Memorial District Library, as of and for the year ended December 31, 2004, as listed in the table of contents. The financial statements are the responsibility of the Ruth Hughes Memorial District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ruth Hughes Memorial District Library, at December 31, 2004 and its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis* – For State and Local Governments and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

Marlette, Michigan
June 27, 2005

Ruth Hughes Memorial District Library

Imlay City, Michigan

Management's Discussion and Analysis

December 31, 2004

This section of the financial report provides discussion and analysis of the Ruth Hughes Memorial District Library's financial performance during the year ended December 31, 2004. The intent of this discussion and analysis is to provide comprehensive review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's overall fiscal year 2004 performance.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, issued in June of 2000.

Using this Annual Report

This annual report consists of the following three parts: management's discussion and analysis (this section), basic financial statements and the required supplemental information.

These statements are organized to help the reader understand the financial position of the Ruth Hughes Memorial District Library as a whole. The Government-wide Financial Statements provide information about the overall activities of the Library. The fund financial statements provide more detailed information about the Library's Special Revenue Fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The last section of this audit includes required supplemental information that supports and provides further clarity of the financial statements with a budgetary comparison schedule of fiscal year 2004 budget.

Government-Wide Financial Statements

The Government-wide statements provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including

programming, technology and building improvements. These activities are primarily funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two Government-wide statements: the Statement of Net Assets and the Statement of Activities.

The **Statement of Net Assets** includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets and long-term obligations of the Library are included in this statement.

The **Statement of Activities** accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting. The intent of this statement is to summarize and simplify the user's analysis of the costs of various Library services.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the library's assets and liabilities.

The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of the stability of the Library's financial health.

However, as a public services oriented governmental entity, the Library's goal is to provide a service to our community, not generate profits, as would a private corporation. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the District Library's facilities and the property tax base within the District.

Fund Financial Statements

The fund financial statements focus on providing more detailed

Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2004

information about the major funds of the Library and not on the Library as a whole, as reported in the Government-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are “*measurable*” and “*currently available*” are reported. Liabilities are identified and the terms are paid with yearly revenue, and/or funds allocated from the library’s ‘fund balance’ as approved by the executive board. The fund statements provide a detailed short-term view of the Library’s operations and help in determining whether there are more or less financial resources available in the near future to finance the Library’s programs and services provided.

Summary of Net Assets

Government activities

Assets

| | |
|----------------|------------------|
| Current assets | \$ 609,344 |
| Capital assets | <u>854,345</u> |
| Total assets | <u>1,463,689</u> |

Liabilities

| | |
|-----------------------|----------------|
| Current liabilities | 38,741 |
| Long-term liabilities | <u>363,532</u> |
| Total liabilities | <u>402,273</u> |

Net Assets

| | |
|----------------------------|---------------------|
| Invested in capital assets | 465,790 |
| Unrestricted | <u>595,626</u> |
| Total net assets | <u>\$ 1,061,416</u> |

A portion of the Library’s net assets reflect investments in capital assets (land, buildings and improvements, vehicles, equipment and furniture), less any related outstanding debt used to acquire those assets. The

Library uses these capital assets to provide services to patrons; consequently, these assets are not available for future spending. Although, the Library’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets Operating Results

Governmental Activities

Revenues

| | |
|------------------------------------|----------------|
| Program Revenue | |
| Charges for services | \$ 4,851 |
| Operating grants and contributions | 15,988 |
| General revenue | |
| Property tax | 242,037 |
| Fines and forfeits | 61,139 |
| State aid - unrestricted | 10,889 |
| Interest and investment earnings | 6,556 |
| Other | <u>579</u> |
| Total revenues | <u>342,039</u> |

Expenses

| | |
|---------------------------------|----------------|
| Recreational and culture | 231,905 |
| Capital outlay (noncapitalized) | 9,940 |
| Interest on long term debt | 16,026 |
| Depreciation - unallocated | <u>42,720</u> |
| Total expenses | <u>300,591</u> |

| | |
|----------------------|--------|
| Change in net assets | 41,448 |
|----------------------|--------|

| | |
|--------------------------------|------------------|
| Net assets - beginning of year | <u>1,019,968</u> |
|--------------------------------|------------------|

| | |
|--------------------------|---------------------|
| Net assets - end of year | <u>\$ 1,061,416</u> |
|--------------------------|---------------------|

Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2004

The net assets of the Library increased \$41,448 during 2004. The breakdown of this change is shown above.

The *Statement of Activities* presented later in the Government-wide financial statements provides greater detail on the Library's annual activity. As reported in the Statement of Activities, the cost of all government activities this year was \$300,591. However, the amount that was ultimately financed by our taxpayers through property taxes was \$242,037, \$10,889 in state aid and \$53,069 in penal fine revenue.

The Library levied .8272 mills in property taxes on properties within the District. The District Library's current tax levy is set to expire in August of 2006.

Local Property Tax History

| <u>Fiscal Year</u> <u>Revenue</u> | <u>% of</u> <u>Revenue</u> | <u>Local</u> <u>Property Tax</u> |
|--------------------------------------|-------------------------------|-------------------------------------|
| 2004 | 72% | \$ 236,865 |
| 2003 | 73% | 226,254 |
| 2002 | 64% | 197,064 |
| 2001 | 64% | 181,090 |
| 2000 | 58% | 181,907 |

The tax table above does not reflect delinquent or IFT Tax revenue.

Budgetary Highlights

The Ruth Hughes Memorial District Library witnessed a couple of events that decreased the library's fiscal expenditures, allowing for reallocation of funds to enhance the level of public services it provides to residents of the District.

The assistant director left employment with the library in July and the

position was not filled. Instead, the library developed a technical services coordinator position that started at a lower hourly salary than that of the assistant director, saving the library enough money to consider investment in a new automation system and membership with Valley Library Consortium.

The library joined Valley Library Consortium along with Lapeer District Library, North Branch Township Library and Dryden Township Library. An LSTA grant was administered by the Mideastern Michigan Library Cooperative, which offset a large portion of the migration costs. The implementation and participation in the statewide delivery system, paid for by the Mideastern Michigan Library Cooperative, has saved the library nearly fifty percent of its annual postage expenses.

Budget Adjustments

Because of the nature of building improvement activities and changes in the library's administrative organizational chart; i.e., the elimination of the assistant director position, this fiscal procedure was not performed during the year. Therefore, there were no budget adjustments made during fiscal year 2004. Although this is not preferably the method by which the library generally practices its fiscal procedures, it should not be viewed as detrimental to the overall operations of the library, nor its financial stability.

Revenue Threats

There were no direct threats to revenue during fiscal year 2004. However, recent legislation being proposed in early 2005 indicated a potential threat to state aid by nearly ten percent.

Furthermore, the library will be seeking renewal of its ten-year old millage in 2006. Library systems throughout the county have begun discussing whether independent millages or another countywide millage will be sought. The Ruth Hughes Memorial District Library will not be

**Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2004**

able to continue serving the residents of the District without a consideration of an increase in the tax levy being considered.

Requests for Information

This financial report is designed to provide a general overview for anyone interested in the District Library's finances and to demonstrate the Library's accountability for the revenues it received. Questions concerning this report or requests for additional information should be addressed to:

Ruth Hughes Memorial District Library
Attention: Bryan J. Cloutier, Director
211 N. Almont Ave.
Imlay City, MI 48444-1004
Telephone: (810) 724-8043
Facsimile: (810) 724-2602

Ruth Hughes Memorial District Library
Statement of Net Assets
December 31, 2004

| | <u>Primary Government</u> |
|---|-------------------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 353,540 |
| Taxes receivable | 248,008 |
| Penal fines receivable | <u>7,796</u> |
| Total current assets | <u>609,344</u> |
| Noncurrent assets | |
| Capital assets, less accumulated depreciation of \$ 335,423 | <u>854,345</u> |
| Total assets | <u>1,463,689</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 6,330 |
| Accrued payroll and related liabilities | 7,388 |
| Noncurrent liabilities | |
| Building note - due within one year | 25,023 |
| Building note - due more than one year | <u>363,532</u> |
| Total liabilities | <u>402,273</u> |
| Net Assets | |
| Invested in capital assets | 465,790 |
| Unrestricted | <u>595,626</u> |
| Total net assets | <u>\$ 1,061,416</u> |

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Statement of Activities
Year Ended December 31, 2004

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|-------------------|-------------------------|---------------------------------------|---|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Primary government | | | | |
| Governmental activities | | | | |
| Recreational and culture | \$ 231,905 | \$ 4,851 | \$ 15,988 | \$ (211,066) |
| Capital outlay (noncapitalized) | 9,940 | - | - | (9,940) |
| Interest on long term debt | 16,026 | - | - | (16,026) |
| Depreciation - unallocated | 42,720 | - | - | (42,720) |
| Total governmental activities | \$ 300,591 | \$ 4,851 | \$ 15,988 | (279,752) |
| General revenues | | | | |
| Property taxes | | | | 242,037 |
| Fines and forfeits | | | | 61,139 |
| State aid - unrestricted | | | | 10,889 |
| Interest and investment earnings | | | | 6,556 |
| Other | | | | 579 |
| Total general revenues | | | | 321,200 |
| Change in net assets | | | | 41,448 |
| Net assets - beginning | | | | 1,019,968 |
| Net assets - ending | | | | \$ 1,061,416 |

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Balance Sheet
Special Revenue Fund
December 31, 2004

Assets

| | |
|-----------------------------------|------------------------------|
| Cash and cash equivalents | \$ 353,540 |
| Taxes receivable | 248,008 |
| Penal fines and other receivables | <u>7,796</u> |
| Total assets | <u><u>\$ 609,344</u></u> |

Liabilities

| | |
|---|---------------------------|
| Accounts payable | \$ 6,330 |
| Accrued payroll and related liabilities | 7,388 |
| Deferred revenue | <u>248,008</u> |
| Total liabilities | <u><u>261,726</u></u> |

Fund balance

| | |
|--|------------------------------|
| Undesignated | <u><u>\$ 347,618</u></u> |
| Total liabilities and fund balance | <u><u>\$ 609,344</u></u> |

Ruth Hughes Memorial District Library
Reconciliation of the Balance Sheet of Special Revenue Fund to the Statement of Net Assets
December 31, 2004

| | |
|--|----------------------------|
| Total special revenue fund balance | \$ 347,618 |
| Total net assets reported for governmental activities in the statement of net assets is different because: | |
| Deferred property taxes | 248,008 |
| Capital assets used in governmental activities are not financial resources are therefore are not reported in the funds. Those assets consist of: | |
| Buildings and improvements | \$ 939,096 |
| Land and improvements | 48,797 |
| Computers and equipment | 49,611 |
| Furniture and fixtures | 152,264 |
| Accumulated depreciation | <u>(335,423)</u> 854,345 |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of December 31, 2004 are as follows: | |
| Building loan payable | <u>(388,555)</u> |
| Net assets of governmental activities | <u><u>\$ 1,061,416</u></u> |

Ruth Hughes Memorial District Library
Statement of Revenues, Expenditures and Changes in Fund Balance
Special Revenue Fund
Year Ended December 31, 2004

| | |
|--------------------------------------|--------------------------|
| Revenues | |
| Taxes | \$ 239,796 |
| Grants | 18,140 |
| Charges for services | 4,851 |
| Fines and forfeits | 61,139 |
| Interest | 6,556 |
| Other revenue | 579 |
| Contributions and gifts | <u>8,737</u> |
| Total revenues | <u>339,798</u> |
| Expenditures | |
| Recreational and culture | 231,905 |
| Capital outlay | 17,456 |
| Debt payments | <u>40,072</u> |
| Total expenditures | <u>289,433</u> |
| Excess of revenues over expenditures | 50,365 |
| Fund balance, beginning of year | <u>297,253</u> |
| Fund balance, end of year | <u><u>\$ 347,618</u></u> |

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
Special Revenue Fund to the Statement of Activities
Year Ended December 31, 2004

Net change in fund balances - special revenue fund **\$ 50,365**

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities
the cost of those assets is allocated over their estimated useful lives and reported as depreciation
expense.

| | | |
|----------------------|--------------|----------|
| Depreciation expense | \$ (42,720) | |
| Capital outlay | <u>7,516</u> | (35,204) |

Revenues in the statement of activities that do not provide current financial resources are not
reported as revenue in the funds.

| | |
|----------------|-------|
| Property taxes | 2,241 |
|----------------|-------|

Debt repayments are reported as financing uses in the special revenue funds and thus
contribute to the change in fund balance. In the statement of net assets, however, repayment
of debt decreases long-term liabilities and does not affect the statement of activities.

| | |
|------------------------------|---------------|
| Repayments of long-term debt | <u>24,046</u> |
|------------------------------|---------------|

Change in net assets of governmental activities **\$ 41,448**

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ruth Hughes Memorial District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to the Library. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Ruth Hughes Memorial District Library. The District Library is the primary government and there are no other component units that should be reported.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Ruth Hughes Memorial District Library

Notes to Financial Statements

December 31, 2004

The Library reports only one fund as follows:

- The Special Revenue Fund is used to record the operations of the Library which pertain to maintaining and operating the Ruth Hughes Memorial District Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Equity

Cash – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three (3) months or less when acquired.

Receivables – Property taxes are assessed as of December 31 and the related taxes become a lien on March 1 of the following year. The Libraries' taxes are due in July with the final collection date on February 28 before they are added to the County tax rolls. The delinquent real property taxes of the taxing entities are purchased by Lapeer County. These taxes have been recorded as revenue in the current year.

Capital assets – Purchased or constructed capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$100. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Buildings, furniture and equipment, and leasehold improvements are depreciated using the straight-line method over the following useful lives:

| | |
|------------------------------------|----------------|
| Land improvements | 10 to 20 years |
| Building and building improvements | 20 to 40 years |
| Furniture and fixtures | 5 to 10 years |
| Computers and equipment | 5 to 10 years |

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

In June, 1999 the Governmental Accounting Standards Board (GASB) issued *Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. Ruth Hughes Memorial District Library has applied the provisions of this statement and the related GASB statements in the accompanying financial statements (including the notes to financial statement). Changes to the financial statements as a result of GASB No. 34 are as follows:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations has been included.
- Government-wide financial statements prepared using full accrual accounting for all of the Library's activities has been provided.
- Capital assets in the governmental activities column of the statement of net assets include assets totaling \$1,189,768 previously reported in the General Fixed Assets Account Group. Capital assets at January 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by \$292,703 to reflect accumulated depreciation of the Library's capital assets at that date. In addition, the governmental activities

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2004

column includes long-term obligations totaling \$388,555 which was previously reported in the General Long-term Debt Account Group.

NOTE 2 - BUDGETARY POLICIES AND DATA

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the Special Revenue Fund.

The Board adopts appropriations utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

The Ruth Hughes Memorial District Library uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Library Director is authorized to transfer budgeted amounts between functions; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
4. The budget for the Special Revenue Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year.

Excess of Expenditures over Appropriations

Expenditures exceeded the budget by \$3,798.

NOTE 3 - CASH AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits – The Library shall deposit its funds in banks, savings and loan associations or credit unions having their principal offices in the State of Michigan.

Investments – The Library is restricted to the following investments: Bonds, bills or notes of the U.S.; certificates of deposit; commercial paper rated prime; securities issued or guaranteed by agencies or instrumentalities of the U.S.; U.S. or federal agency obligation repurchase agreements composed of eligible collateral whose market value must be maintained equal to or greater than the amounts advanced, and with an undivided interest; bankers' acceptances; and mutual funds and investment pools that are composed entirely of the aforementioned investments that are legal and direct investment by the Library.

At year end, the breakdown between deposits and cash on hand is as follows:

| | |
|--|-------------------|
| Bank deposits (checking and savings accounts, certificates of deposit) | \$ 353,255 |
| Petty cash and cash on hand | <u>285</u> |
| | <u>\$ 353,540</u> |

The carrying amount of the Library's deposits with financial institutions, (excluding petty cash of \$285) was \$353,255 and the bank balance was \$353,877 of which \$100,000 is covered by federal depository insurance. At December 31, 2004, the District Library had no investments.

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2004

NOTE 4 - CAPITAL ASSETS

Capital assets for the current year was as follows:

| | Balance January 1, 2004 | Additions | Deletions | Balance December 31, 2004 |
|---|-------------------------------|------------|--------------|---------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 24,399 | \$ - | \$ - | \$ 24,399 |
| Construction in progress | 498,721 | - | (498,721) | - |
| Total capital assets not being depreciated | 523,120 | - | (498,721) | 24,399 |
| Capital assets being depreciated | | | | |
| Land improvements | 24,398 | - | - | 24,398 |
| Building and building improvements | 440,375 | 498,721 | - | 939,096 |
| Furniture and fixtures | 150,024 | 2,240 | - | 152,264 |
| Computers and equipment | 44,335 | 5,276 | - | 49,611 |
| Total capital assets being depreciated | 659,132 | 506,237 | - | 1,165,369 |
| Less: Accumulated depreciation | | | | |
| Land improvement | 17,689 | 1,220 | - | 18,909 |
| Buildings and building improvements | 159,636 | 23,477 | - | 183,113 |
| Furniture and fixtures | 94,243 | 9,847 | - | 104,090 |
| Computers and equipment | 21,135 | 8,176 | - | 29,311 |
| Total accumulated depreciation | 292,703 | 42,720 | - | 335,423 |
| Net capital assets being depreciated | 366,429 | 463,517 | - | 829,946 |
| Governmental activities capital assets, net | \$ 889,549 | \$ 463,517 | \$ (498,721) | \$ 854,345 |

Depreciation for the fiscal year ended December 31, 2004, amounted to \$42,720.

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|----------------|--------------------|-----------------|
| Property taxes | \$ 248,008 | \$ - |

NOTE 6 – DEFERRED COMPENSATION PLAN

The Library offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) IRA in accordance with IRS Section 408(p). The plan, available to Library employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency. The employer matches employee contributions at 3% of the employees elected salary contribution up to a maximum of \$1,000 annually. Employer costs for the year ended December 31, 2004 were \$1,122. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in the Library's financial statements.

NOTE 7 - LONG-TERM DEBT

Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|-----------------------|----------------------|-----------|------------|-------------------|----------------------------------|
| Building note payable | \$ 412,601 | \$ - | \$ 24,046 | \$ 388,555 | \$ 25,023 |

Future principal and interest (3.99%) requirements for the building note,

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2004

with final payment due March, 2017, to be paid out of the Special Revenue Fund is as follows:

| <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|------------------|-----------------|----------------|
| 2005 | 25,023 | 15,049 | 40,072 |
| 2006 | 26,040 | 14,032 | 40,072 |
| 2007 | 27,098 | 12,974 | 40,072 |
| 2008 | 28,199 | 11,873 | 40,072 |
| 2009 | 29,345 | 10,727 | 40,072 |
| 2010-2014 | 165,614 | 34,746 | 200,360 |
| 2015-2017 | <u>87,236</u> | <u>4,173</u> | <u>91,409</u> |
| | <u>388,555</u> | <u>103,574</u> | <u>492,129</u> |

NOTE 8 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Ruth Hughes Memorial District Library
Required Supplemental Information
Budgetary Comparison Schedule
Special Revenue Fund
Year Ended December 31, 2004

| | Original and Final Budgeted Amounts | Actual | Actual Over (Under) Final Budget |
|---|---|------------|--|
| Revenues | | | |
| Current local taxes | \$ 203,000 | \$ 239,167 | \$ 36,167 |
| Delinquent taxes | 700 | 629 | (71) |
| State Aid | 9,458 | 10,889 | 1,431 |
| Grants | - | 7,251 | 7,251 |
| Audio books | 515 | 450 | (65) |
| Copies | 1,935 | 2,515 | 580 |
| Fax | 500 | 1,252 | 752 |
| Patron cards | 410 | 634 | 224 |
| Miscellaneous | 40 | 167 | 127 |
| Library fines | 5,521 | 8,070 | 2,549 |
| Penal fines | 57,800 | 53,069 | (4,731) |
| Interest earned | 5,000 | 6,556 | 1,556 |
| Friends of the library | - | 3,760 | 3,760 |
| Other contribution from private sources | 251 | 4,977 | 4,726 |
| Refunds and rebates | - | 369 | 369 |
| Other | 5 | 43 | 38 |
| Total revenues | 285,135 | 339,798 | 54,663 |
| Expenditures | | | |
| Wages and salaries | 143,212 | 139,711 | (3,501) |
| Payroll taxes | 10,956 | 10,688 | (268) |
| Retirement fund contribution | 3,180 | 1,122 | (2,058) |
| Health insurance | 4,862 | 5,703 | 841 |
| Books | 24,071 | 21,280 | (2,791) |
| Audio books | 500 | 289 | (211) |
| Compact discs | 2,500 | 1,130 | (1,370) |
| Videos | 750 | 645 | (105) |
| Periodicals and reference | 2,900 | 4,108 | 1,208 |

Ruth Hughes Memorial District Library
Required Supplemental Information
Budgetary Comparison Schedule
Special Revenue Fund
Year Ended December 31, 2004

| | Original and Final Budgeted Amounts | Actual | Actual Over (Under) Final Budget |
|---|---|------------|--|
| Supplies | 4,500 | 4,663 | 163 |
| Professional and contractual services | 16,094 | 12,684 | (3,410) |
| Postage | 2,000 | 1,014 | (986) |
| Insurance | 6,000 | 7,717 | 1,717 |
| Library system | 688 | 713 | 25 |
| Library programs | 350 | 297 | (53) |
| Continuing educations | 2,600 | 1,465 | (1,135) |
| Building maintenance and repair | 1,800 | 2,705 | 905 |
| Travel | 1,000 | 587 | (413) |
| Library promotion | 250 | 68 | (182) |
| Public utilities | 13,500 | 14,731 | 1,231 |
| Membership dues | 365 | 355 | (10) |
| Miscellaneous | 150 | 226 | 76 |
| Refunds and rebates | 325 | 4 | (321) |
| Capital outlay | 3,010 | 17,456 | 14,446 |
| Debt payment | 40,072 | 40,072 | - |
| Total expenditures | 285,635 | 289,433 | 3,798 |
| Excess (deficiency) of revenues over expenditures | (500) | 50,365 | 50,865 |
| Fund balance - beginning of year | 297,253 | 297,253 | - |
| Fund balance - end of year | \$ 296,753 | \$ 347,618 | \$ 50,865 |



3149 Main Street, Suite Plaza #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

June 27, 2005

To the Board of Directors
Ruth Hughes Memorial District Library
Imlay City, Michigan

In planning and performing our audit of the financial statements of the Ruth Hughes Memorial District Library for the year ended December 31, 2004, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated June 27, 2005, on the financial statements of the Ruth Hughes Memorial District Library.

Accounts Payable

It was noted that a number of checks written after year end were back dated to December 31, 2004. Management indicated the reason was to get the expense in the correct year since the invoices were received late. The proper way of handling this is to enter the invoices as accounts payable using the date you receive the goods or service. The expense will then be posted in the correct period regardless of when you actually write the check to pay the invoice.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with the Library Director, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Library Director and his staff for their support and assistance during our audit. It is with pride that we count the Ruth Hughes Memorial District Library as one of our clients.

This report is intended solely for the information and use of the Board of Directors, management and others within the Library and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.
Marlette, Michigan
June 27, 2005